

**CITY OF MONTEZUMA, IOWA**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2016**



## Table of Contents

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		<u>Page</u>
City Officials		2
Independent Auditor's Report		3-4
Management's Discussion and Analysis (MD&A)		5-10
<u>Basic Financial Statements:</u>	<u>Exhibit</u>	
Government-Wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	C	14
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E	16
Component Unit Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	F	17
Statement of Fiduciary Net Position	G	18
Notes to Financial Statements		19-28
<u>Other Information:</u>		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		30
Notes to Other Information - Budgetary Reporting		31
Schedule of the City's Proportionate Share of the Net Pension Liability		32
Schedule of City Contributions		33
Notes to Other Information – Pension Liability		34
<u>Supplementary Information:</u>	<u>Schedule</u>	
Schedule of Indebtedness	1	36
Bond and Note Maturities	2	37
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	3	38
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	39
Schedule of Expenditures of Federal Awards	5	40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		41-42
Independent Auditor's Report on Compliance for Each Major Federal Program and Internal Control over Compliance Required by the Uniform Guidance		43-44
Schedule of Findings and Questioned Costs		45-47

**City of Montezuma, Iowa**  
**City Officials**  
**Year Ended June 30, 2016**

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(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James M. Hicks	Mayor	January, 2016
Frank R. Brownell, III	Mayor Pro Tem	January, 2016
Ronald Willrich	Council Member	January, 2018
Curtis Bolen	Council Member	January, 2018
Aaron Mc Caslen	Council Member	January, 2016
Corey Simpson	Council Member	January, 2016
Christy Mc Caslen	Clerk/Treasurer	Indefinite
Gilbert R. Caldwell III	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Corey Simpson	Mayor	January, 2020
Frank R. Brownell, III	Mayor Pro Tem	January, 2020
Ronald Willrich	Council Member	January, 2018
Curtis Bolen	Council Member	January, 2018
Jacki Bolen	Council Member	January, 2020
Adam Duffy	Council Member	January, 2020
Christy Mc Caslen	Clerk/Treasurer	Indefinite
Gilbert R. Caldwell III	Attorney	Indefinite



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**Van Maanen, Sietstra, Meyer & Nikkel, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

## **Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council  
City of Montezuma  
Montezuma, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ending June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5-10 and 30-33, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 12, 2016, on our consideration of the City of Montezuma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montezuma's internal control over financial reporting and compliance.

*Van Maanen, Sietstra, Meyer & Nikkel PC*

Van Maanen, Sietstra, Meyer & Nikkel, PC  
Certified Public Accountants

October 12, 2016

The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

## **2016 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 62.10%, or approximately \$899,000, from fiscal 2015 to 2016. The increase is due largely to funds received from the Community Development Block Grant.
- Disbursements of the City's governmental activities increased 124.0%, or approximately \$1,662,000 from fiscal 2015 to fiscal 2016. Capital expenditures were up \$1,736,000 due to costs related to the Facade & Sewer Capital Projects.
- The City's total cash basis net position decreased 4.7%, or approximately \$209,000 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$265,000 and the cash basis net position of the business type activities increased approximately \$56,000.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about indebtedness, bond and note maturities, changes in fiduciary assets and liabilities and a comparative schedule of receipts and disbursements. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general governmental, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water works, the sanitary sewer system, recycling, and gas systems. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Employee Benefits Funds, 3) the Debt Service Fund, 4) and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from approximately \$2.623 million to approximately \$2.358 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

<b>Changes in Cash Basis Net Position of Governmental Activities</b>		
<b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Receipts:		
Program receipts:		
Charges for service	\$ 93	105
Operating grants, contributions and restricted interest	300	199
Capital grants, contributions and restricted interest	992	209
General receipts:		
Property tax	701	640
Local Option Sales Tax	139	163
Grants and contributions not restricted to specific purposes	-	-
Payment in lieu of taxes	46	32
Unrestricted interest earnings	3	1
Bond proceeds	386	-
Miscellaneous	72	78
Sale of Assets	2	20
Total receipts	2,734	1,447
Disbursements:		
Public safety	236	314
Public works	341	274
Culture and recreation	128	132
Community and economic development	-	73
General government	160	150
Debt service	278	271
Capital projects	1,859	126
Total disbursements	3,002	1,340
Change in cash basis net position before transfers	(268)	107
Transfers, net	3	12
Change in cash basis net position	(265)	119
Cash basis net position beginning of year	2,623	2,504
Cash basis net position end of year	\$ 2,358	2,623

The City's total receipts and transfers for governmental activities increased by 87.6%, or approximately \$1,278,000. The increase in receipts is mainly due to funds received for the Facade capital project. The total cost of all programs and services increased by approximately \$1,662,000 or 124.0%. The increase in programs and services was primarily due to capital project expenditures for the Facade & Sewer capital projects.

The cost of all governmental activities this year was \$3.002 million compared to \$1.340 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on page 12, the amount taxpayers ultimately financed for these activities was only \$1.617 million because some of the cost was paid by those directly benefiting from the programs (approximately \$93,000) or by other

**City of Montezuma, Iowa**  
**Management's Discussion and Analysis**  
**June 30, 2016**

governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$1,211,000). Overall, the City's governmental activities program receipts increased in 2016 from approximately \$513,000 to approximately \$1,385,000. The City paid for the remaining "public benefit" portion of governmental activities (\$1,617,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest, and general entitlements.

<b>Changes in Cash Basis Net Position of Business Type Activities</b>		
<b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 672	682
Sewer	208	189
Recycling	63	64
Gas	635	1,084
General receipts:		
Unrestricted interest earnings	1	1
Other general receipts	-	-
Loan proceeds	-	-
Total receipts	1,579	2,020
Disbursements:		
Water	696	962
Sewer	114	128
Recycling	62	62
Gas	649	893
Total disbursements	1,521	2,045
Change in cash basis net assets before transfers	58	(25)
Transfers, net	(3)	(12)
Change in cash basis net position	55	(37)
Cash basis net position beginning of year	1,856	1,893
Cash basis net position end of year	\$ 1,911	1,856

Total business type activities receipts for the fiscal year were approximately \$1.579 million compared to \$2.020 million last year. Total disbursements and transfers for the fiscal year decreased 25.9% to a total of \$1.524 million compared to \$2.057 million last year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$2,357,636, a decrease of \$265,097 from last year's total of \$2,622,733.

- The General Fund cash balance increased \$129,656 from the prior year to \$1,532,832.
- The Debt Service Fund cash balance increased \$12,787 from the prior year to \$17,808.
- The Capital Projects Fund cash balance decreased \$49,576 from the prior year to \$48,848.
- The Special Revenue, Local Option Sales Tax Fund decreased \$322,293 from the prior year to \$304,081.

- The Special Revenue, Road Use Fund decreased \$45,534 from the prior year to \$444,204.
- The Special Revenue, Employee Benefits fund increased \$9,863 from the prior year to \$9,863.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$23,236 to \$508,936.
- The Sewer Fund cash balance increased by \$91,447 to \$372,223.
- The Recycling Fund cash balance increased by \$999 to \$30,360.
- The Gas Fund cash balance decreased by \$13,475 to \$999,886.

#### BUDGETARY HIGHLIGHTS

The City's budget was amended during the year to add \$820,102 to the budgeted disbursements. Disbursements budget was increased as follows; Public safety \$81,650, Public Works \$39,256, Capital Projects \$699,196.

The City's receipts were \$1,066,676 less than budgeted, primarily in charges for services.

The City's disbursements were \$1,725,303 less than budgeted, expenditures were under budget primarily in the business type activity function. Expenditures exceeded the budget for fiscal year 2016 in the debt service function.

#### DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$2,691,000 in bonds and other long-term debt, compared to approximately \$2,643,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30, 2016	June 30, 2015
General obligation bonds	\$ 640	900
Water Revenue-SRF Loan	1,665	1,743
Sewer Revenue-SRF Loan	386	-
Total	\$ 2,691	2,643

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$640,000 is below its total calculated constitutional debt limit of approximately \$3.6 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Montezuma's elected and appointed officials and citizens considered various factors when preparing the tax rates, fees, and fiscal year 2017 budget. Indicators taken into account included debt obligations, necessary infrastructure upgrades and slightly increased tax revenues. Property tax revenues are slated to increase by a small margin, up 1.2%. All revenues are expected to decrease 17% due to the loss of state and federal grant revenue (grant projects were completed in fiscal year 2016). Correspondingly, disbursements are budgeted to fall approximately \$1.4 million dollars, a decrease of approximately 18% attributed to the completion of the downtown facade and sewer rehabilitation capital projects.

## **COMPONENT UNIT**

The separately issued financial statements for the Montezuma Municipal Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Christy Mc Caslen, City Clerk, at the address listed below.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Christy Mc Caslen, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa 50171.

## **Basic Financial Statements**

**City of Montezuma, Iowa**  
**Cash Basis Statement of Activities and Net Position**  
**As of and for the year ended June 30, 2016**

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets						
	Program Receipts				Primary Government		Component Unit
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Primary government:							
Governmental activities:							
Public safety	\$ 236,359	87,412	99,348	3,800	(45,799)	-	(45,799)
Public works	340,596	-	180,673	-	(159,923)	-	(159,923)
Culture and recreation	128,291	155	19,592	-	(108,544)	-	(108,544)
Community and economic development	-	-	-	987,880	987,880	-	987,880
General government	160,371	5,685	-	-	(154,686)	-	(154,686)
Debt service	277,850	-	-	-	(277,850)	-	(277,850)
Capital Projects	1,858,507	-	-	-	(1,858,507)	-	(1,858,507)
Total governmental activities	3,001,974	93,252	299,613	991,680	(1,617,429)	-	(1,617,429)
Business type activities:							
Water	696,130	672,503	-	-	-	(23,627)	(23,627)
Sewer	113,691	208,117	-	-	-	94,426	94,426
Recycling	62,101	63,095	-	-	-	994	994
Gas	648,656	634,578	-	-	-	(14,078)	(14,078)
Total business type activities	1,520,578	1,578,293	-	-	-	57,715	57,715
Total primary government	\$ 4,522,552	1,671,545	299,613	991,680	(1,617,429)	57,715	(1,559,714)
Component Unit:							
Municipal Light and Power Plant	\$ 2,396,979	2,972,244	-	-	-	-	575,265
	\$ 2,396,979	2,972,244	-	-	-	-	575,265
<b>General Receipts:</b>							
Property tax and other city tax levied for:							
General purposes					\$ 415,096	-	415,096
Debt service					286,202	-	286,202
Local option sales tax					138,860	-	138,860
Payment in lieu of taxes					46,284	-	46,284
Unrestricted interest on investments					2,596	1,045	3,641
Bond proceeds					385,845	-	385,845
Miscellaneous					72,290	-	72,290
Sale of Capital Assets					2,134	-	2,134
Transfers					3,025	(3,025)	-
Total general receipts and transfers					1,352,332	(1,980)	1,350,352
Change in cash basis net position					(265,097)	55,735	(209,362)
Cash basis net position beginning of year					2,622,733	1,855,670	4,478,403
Cash basis net position end of year					\$ 2,357,636	1,911,405	4,269,041
<b>Cash Basis Net Position</b>							
Restricted:							
Expendable:							
Public Streets					\$ 444,204	-	444,204
Debt service/improvements					17,808	12,705	30,513
Memorials/Designated Contributions					29,121	-	29,121
Other purposes					362,792	-	362,792
Unrestricted					1,503,711	1,898,700	3,402,411
Total cash basis net position					\$ 2,357,636	1,911,405	4,269,041

See notes to financial statements.

## Exhibit B

**City of Montezuma, Iowa**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the year ended June 30, 2016**

	General	Debt Service	Capital Projects	Special Revenue			Total
				Local Option Sales Tax	Road Use	Employee Benefits	
Receipts:							
Property tax	\$ 380,344	286,202	-	-	-	34,752	701,298
Other city tax	-	-	-	138,860	-	-	138,860
Licenses and permits	2,985	-	-	-	-	-	2,985
Use of money and property	5,248	-	-	22	26	-	5,296
Intergovernmental	16,497	-	914,337	-	180,673	-	1,111,507
Charges for service	87,567	-	-	-	-	-	87,567
Private contributions	106,243	-	73,543	-	-	-	179,786
Miscellaneous	118,574	-	-	-	-	-	118,574
Total receipts	717,458	286,202	987,880	138,882	180,699	34,752	2,345,873
Disbursements:							
Operating:							
Public safety	235,734	-	-	-	-	625	236,359
Public works	56,915	-	-	47,750	226,233	9,698	340,596
Culture and recreation	121,767	-	-	-	-	6,524	128,291
Community & Economic Development	-	-	-	-	-	-	-
General government	152,329	-	-	-	-	8,042	160,371
Debt service	-	273,415	4,435	-	-	-	277,850
Capital projects	-	-	1,858,507	-	-	-	1,858,507
Total disbursements	566,745	273,415	1,862,942	47,750	226,233	24,889	3,001,974
Excess (deficiency) of receipts over (under) disbursements	150,713	12,787	(875,062)	91,132	(45,534)	9,863	(656,101)
Other financing sources (uses):							
SRF Bond proceeds	-	-	385,845	-	-	-	385,845
Sale of capital assets	2,134	-	-	-	-	-	2,134
Transfers In	15,000	-	894,216	203,575	-	-	1,112,791
Transfers Out	(38,191)	-	(454,575)	(617,000)	-	-	(1,109,766)
Total other financing sources	(21,057)	-	825,486	(413,425)	-	-	391,004
Change in cash balances	129,656	12,787	(49,576)	(322,293)	(45,534)	9,863	(265,097)
Cash balances beginning of year	1,403,176	5,021	98,424	626,374	489,738	-	2,622,733
Cash balances end of year	\$ 1,532,832	17,808	48,848	304,081	444,204	9,863	2,357,636
<b>Cash Basis Fund Balances</b>							
Restricted for:							
Debt service	\$ -	17,808	-	-	-	-	17,808
Public Streets	-	-	-	-	444,204	-	444,204
Fire Department memorial	21,076	-	-	-	-	-	21,076
Library	8,045	-	-	-	-	-	8,045
Other purposes	-	-	48,848	304,081	-	9,863	362,792
Unassigned	1,503,711	-	-	-	-	-	1,503,711
Total cash basis fund balances	\$ 1,532,832	17,808	48,848	304,081	444,204	9,863	2,357,636

See notes to financial statements.

Exhibit C

**City of Montezuma, Iowa**

**Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position**

**Governmental Funds**

**As of and for the year ended June 30, 2016**

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<b>Total governmental funds cash balances (Exhibit A)</b>	<b>\$ 2,357,636</b>
<b>Cash basis net position of governmental activities (Exhibit B)</b>	<b>\$ 2,357,636</b>
<b>Change in cash balances (Exhibit B)</b>	<b>\$ (265,097)</b>
<b>Change in cash basis net position of governmental activities (Exhibit A)</b>	<b>\$ (265,097)</b>

See notes to financial statements.



## Exhibit D

**City of Montezuma, Iowa**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2016**

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 672,503	208,117	63,095	634,578	1,578,293
Miscellaneous	-	-	-	-	-
Total operating receipts	672,503	208,117	63,095	634,578	1,578,293
Operating disbursements:					
Business type activities	515,672	113,691	62,101	648,656	1,340,120
Total operating disbursements	515,672	113,691	62,101	648,656	1,340,120
Excess (deficiency) of operating receipts over (under) operating disbursements	156,831	94,426	994	(14,078)	238,173
Non-operating receipts (disbursements):					
Interest on investments	391	46	5	603	1,045
Debt Service	(134,647)	-	-	-	(134,647)
Capital projects	(45,811)	-	-	-	(45,811)
Net non-operating receipts (disbursements)	(180,067)	46	5	603	(179,413)
Excess (deficiency) of receipts over (under) disbursements	(23,236)	94,472	999	(13,475)	58,760
Transfers in	-	252,691	-	-	252,691
Transfers (out)	-	(255,716)	-	-	(255,716)
Change in cash balances	(23,236)	91,447	999	(13,475)	55,735
Cash balances beginning of year	532,172	280,776	29,361	1,013,361	1,855,670
Cash balances end of year	\$ 508,936	372,223	30,360	999,886	1,911,405
<b>Cash Basis Fund Balances</b>					
Restricted for debt service	\$ 10,913	1,792	-	-	12,705
Unrestricted	498,023	370,431	30,360	999,886	1,898,700
Total cash basis fund balances	\$ 508,936	372,223	30,360	999,886	1,911,405

See notes to financial statements.

Exhibit E

**City of Montezuma, Iowa**

**Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -**

**Proprietary Funds**

**As of and for the year ended June 30, 2016**

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Total enterprise funds cash balances (Exhibit D)	\$ 1,911,405
Cash basis net position of business type activities (Exhibit A)	<u>\$ 1,911,405</u>
Net change in cash balances (Exhibit D)	<u>\$ 55,735</u>
Change in cash balance of business type activities (Exhibit A)	<u>\$ 55,735</u>

See notes to financial statements.

## Exhibit F

**City of Montezuma, Iowa**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Component Unit**  
**As of and for the year ended June 30, 2016**

	Municipal Light and Power Plant
Operating receipts:	
Charges for service	\$ 2,972,244
Total operating receipts	<u>2,972,244</u>
Operating disbursements:	
Business type activities	1,981,422
Total operating disbursements	<u>1,981,422</u>
Excess of operating receipts over operating disbursements	990,822
Non-operating receipts (disbursements):	
Rental income	19,149
Interest on investments	4,365
Miscellaneous	6,052
Miscellaneous expense	(2,774)
Debt service	(412,783)
Total non-operating disbursements	<u>(385,991)</u>
Excess of receipts over disbursements	<u>604,831</u>
Change in cash balances	604,831
Cash balances beginning of year	<u>3,685,722</u>
Cash balances end of year	<u><u>\$ 4,290,553</u></u>
<b>Cash Basis Fund Balances</b>	
Reserved for debt service/improvements	\$ 661,315
CMMPA required deposit	199,000
Unreserved	<u>3,430,238</u>
Total cash basis fund balances	<u><u>\$ 4,290,553</u></u>

See notes to financial statements.

Exhibit G

**City of Montezuma, Iowa**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2016**

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	<u>Agency</u>
<b>Assets</b>	
Cash and investments	<u>\$ 2,559</u>
<b>Total assets</b>	<u>2,559</u>
<b>Liabilities</b>	
Accounts payable	<u>2,559</u>
<b>Total liabilities</b>	<u>2,559</u>
<b>Net assets</b>	<u><u>\$ -</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, recycling and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

*Discretely Presented Component Unit*

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

*Jointly Governed Organizations*

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

*Non-expendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

*Fund Financial Statements* - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

Special Revenue:

The Local Option Sales Tax Fund is used to account for local option sales tax collections and expenditures as specified in the election to collect those taxes.

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for the collection and disbursement of amounts levied for employee benefits.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Recycling Fund accounts for the operation and maintenance of the City's recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financials statements, cash basis fund balances are classified as follows:

*Nonspendable* – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

*Restricted* – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Assigned* – Amounts the City Council intends to use for specific purposes.

*Unassigned* – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in debt service function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2016 general fund cash is \$35,619 in library donations and earnings held in trust by the Great Poweshiek Community Foundation. The \$35,619 is available for use by the library whenever requested by the library board.

At June 30, 2016 the City had the following investments:

Type	Carrying Amount	Fair Value
Certificate of deposit	\$ 200,000	200,000
Certificate of deposit	100,000	100,000
Certificate of deposit	100,000	100,000
Certificate of deposit	50,000	50,000
Certificate of deposit	50,000	50,000
Certificate of deposit	65,000	65,000
Certificate of deposit	40,340	40,340
Certificate of deposit	26,430	26,430
Certificate of deposit	35,477	35,477
Total	<u>\$ 667,247</u>	<u>667,247</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$693,580 pursuant to Rule 2 a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

### (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and water revenue bonds are as follows:

Year ending June 30,	General Obligation Note 2013		Revenue Bonds Water		Revenue Bonds Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	260,000	10,315	81,000	49,950	16,000	6,274	357,000	66,539
2018	60,000	7,325	84,000	47,520	17,000	6,720	161,000	61,565
2019	60,000	6,425	86,000	45,000	17,000	6,423	163,000	57,848
2020	65,000	5,525	89,000	42,420	17,000	6,125	171,000	54,070
2021	65,000	4,225	92,000	39,750	18,000	5,827	175,000	49,802
2022	65,000	2,925	95,000	36,990	18,000	5,513	178,000	45,428
2023	65,000	1,463	98,000	34,140	19,000	5,197	182,000	40,800
2024	-	-	101,000	31,200	19,000	4,865	120,000	36,065
2025	-	-	105,000	28,170	19,000	4,533	124,000	32,703
2026	-	-	108,000	25,020	20,000	4,200	128,000	29,220
2027	-	-	111,000	21,780	20,000	3,850	131,000	25,630
2028	-	-	115,000	18,450	20,000	3,500	135,000	21,950
2029	-	-	119,000	15,000	21,000	3,150	140,000	18,150
2030	-	-	123,000	11,430	21,000	2,782	144,000	14,212
2031	-	-	127,000	7,740	22,000	2,415	149,000	10,155
2032	-	-	131,000	3,930	22,000	2,030	153,000	5,960
2033	-	-	-	-	23,000	1,645	23,000	1,645
2034	-	-	-	-	23,000	1,242	23,000	1,242
2035	-	-	-	-	24,000	840	24,000	840
2036	-	-	-	-	9,845	420	9,845	420
Total	\$ 640,000	38,203	1,665,000	458,490	385,845	77,551	2,690,845	574,244

#### A. General Obligation Bonds

The City of Montezuma issued \$1,215,000 in general obligation bonds October 30, 2013. Of the total general obligation bonds issued, \$595,000 was for the purpose of advance refunding, which includes \$575,000 of principle plus some of the interest on the September 2007 general obligation bond debt Crossover refunding and \$620,000 was for the purpose of funding the South Diamond Subdivision Capital Project. The total principal and interest payments remaining on the general obligation bond issue is \$678,203 payable through 2023.

#### B. Revenue Notes

The City of Montezuma entered into a Water Revenue loan and Disbursement agreement with the State Revolving Fund. The City has pledged future water customer receipts, net of specified operating disbursements to repay this loan. The April 1, 2011 loan is being received by the City as funds are expended with a maximum loan of \$2,125,000 available. As of June 30, 2013, \$1,963,734 had been extended and the loan was finalized. The interest rate over the loan's life is 3%. The bonds mature June 1, 2032. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. The principal is due and payable annually commencing June 1,



2013, and annually thereafter. The total principal and interest remaining to be paid on the note is \$2,123,490. For the current year, principal, interest & fees paid and total customer net receipts were \$134,647 and \$111,020, respectively.

The City of Montezuma entered in a Sewer Revenue Loan and Disbursement agreement with the State Revolving Fund. The city pledged future sewer customer receipts, net of specific operating disbursements to repay this loan. The September 4, 2015 loan disbursed was \$385,845. The maximum loan amount is \$400,000 and the loan is not finalized at this time. The interest rate over the loan's life is 1.75%. There is also a .25% service fee over the life of the loan. The estimated maturity date of the loan is June 1, 2036. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing December 1, 2015. The principal is due and payable annually commencing June 1, 2017, and annually thereafter. The estimated total principal and interest remaining to be paid on the note is \$463,396. For the current year, principal, interest & fees paid and total customer net receipts were \$4,435 and \$94,426 respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds. Net revenues are to equal at least 110% of principal and interest of all bonds due in such fiscal year.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts with the Enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the water and sewer accounts after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account within the Enterprise Funds. This account is to be used to transfer money to the sinking fund whenever necessary to prevent or remedy a default in the payment of principal or interest. As long as the sinking fund has the full amounts required any balance in the surplus fund is available to be used as needed for the operation of the utility.

Total interest and fees charged to expense during the fiscal year was \$67,640 and \$6,857 respectively. None was associated with product financing arrangements or capitalized enterprise fund assets.

#### (4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In the fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$40,271.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$294,120 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.005916%, which was a decrease of 0.00047% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$20,042, \$44,713 and \$68,504 respectively. None of these items are reflected in cash basis financial statements.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00%
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3% inflation and 1% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1%-point lower (6.50%) or 1%-point higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionated share of the net pension liability	\$ 514,958	\$ 294,120	\$ 107,724

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on the IPERS' website at [www.ipers.org](http://www.ipers.org).

#### (5) Other Postemployment Benefits (OPEB)

Plan Description – There are three medical/prescription drug plans which provide benefits for employees, retirees and their spouses. There are seven active employees in the City's plan, three active employees in the Water department's plan and three active employees in the Electric Utility's plan at year end. There were no early retirees in any of the plans. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

The City pays 100% of the health costs for each employee, spouse and dependents. It also pays 100% of the employees dental; however, the employee must pay \$25.05 for a spouse and \$17.78 for each child. The Electric Utility pays 100% of all health and dental costs for the employee and families.

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2016, the City contributed \$134,723 for medical and dental insurance. The Water Department contributed \$51,061. City & Water Department plan members eligible for benefits contributed \$4,235 to the dental plan. The Electric Utility contributed \$39,843 and plan members contributed \$0 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2016 is \$18,968. This liability has been computed based on rates in effect at June 30, 2016.

**(7) Interfund Transfers**

The following are interfund transfers during the year ended June 30, 2016:

Transfer to:	Transfer from:	Amount
Capital Project	Sewer	\$ 255,500
Capital Project	LOST	602,000
Capital Project	General	36,500
Capital Project	Sewer	216
LOST	Capital Projects	203,575
General	LOST	15,000
Sewer	General	1,691
Sewer	Capital Projects	251,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (23,782)	-
Water Dept. Billing/Meter Reading	(12,950)	-
Water Dept bills paid by Electric	(6,059)	-
Gas Dept. Electric Use	(1,257)	-
Gas Dept. Billing/Meter Reading	(12,950)	-
Gas Dept. bills paid by Electric	(5,998)	-
General City Electric Use	(62,468)	-
Sewer/Recycling Billing	(2,100)	-
City bills paid by Electric	(6,429)	-
Power Plants - Taxes in lieu	-	46,284
Totals	\$ (133,993)	46,284

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials, employees and associates totaling \$140,492 during the year ended June 30, 2016.

**(10) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating property contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's (including the water and gas departments) contributions to the Pool for the year ended June 30, 2016 were \$39,615.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's fund and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2016, no liability has been recorded in the City's financial statements. As of June 30, 2016, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from IMWCA for coverage associated with workers compensation in the amount of \$1,000,000 per claim. Excess coverage is provided through reinsurance with no cap per section 85 of the Iowa Code. The City assumed liability for any deductibles and claims in excess of coverage limitations. The City (including the water and

gas departments) paid \$20,433 for the year ended June 30, 2016 for this insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Commitments and Contingencies**

The City has entered into several contracts totaling \$668,645. At June 30, 2016, \$533,513 has been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
Sewer Contractor			
Dave Schmitt Construction	\$ 433,270	306,480	71%
Sewer Contractor			
Sheets Excavating	103,370	98,202	95%
Grant Management Sewer			
Region 6	8,000	6,624	83%
Sewer Engineering Services			
MMS	124,005	122,207	99%

On December 6, 2006, the City of Montezuma Light & Power plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The component unit has a contingent liability for \$238,617, or 0.88% of a \$27,115,533 investment by CMMPA. As of June 30, 2016, none of this had been paid. To date revenues have covered the costs on this investment so CMMPA has not required the funds, but Montezuma Light & Power plant remains committed to this payment if needed.

## Other Information

**City of Montezuma, Iowa**  
**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances**  
**Budgetary and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Other Information**  
**Year ended June 30, 2016**

	Budgeted Amounts					
	Governmental Funds Actual	Proprietary Funds Actual	Net	Original	Final	Final to Net Variance
Receipts:						
Property tax	\$ 701,298	-	701,298	676,844	676,844	24,454
Tax increment financing collections	-	-	-	-	-	-
Other city tax	138,860	-	138,860	135,830	135,830	3,030
Licenses and permits	2,985	-	2,985	1,975	1,975	1,010
Use of money and property	5,296	24,559	29,855	2,750	2,750	27,105
Intergovernmental	1,111,507	-	1,111,507	815,507	1,066,678	44,829
Charges for services	87,567	4,550,537	4,638,104	5,966,098	5,966,098	(1,327,994)
Private contributions	179,786	-	179,786	-	-	179,786
Miscellaneous	118,574	6,052	124,626	143,522	143,522	(18,896)
Total receipts	2,345,873	4,581,148	6,927,021	7,742,526	7,993,697	(1,066,676)
Disbursements:						
Public safety	236,359	-	236,359	193,350	275,000	38,641
Public works	340,596	-	340,596	358,744	398,000	57,404
Health & Social Services	-	-	-	-	-	-
Culture and Recreation	128,291	-	128,291	143,837	143,837	15,546
Community & economic development	-	-	-	11,212	11,212	11,212
General government	160,371	-	160,371	187,700	187,700	27,329
Debt service	277,850	-	277,850	273,415	273,415	(4,435)
Capital projects	1,858,507	-	1,858,507	1,208,993	1,908,189	49,682
Business type activities	-	3,917,557	3,917,557	5,447,481	5,447,481	1,529,924
Total disbursements	3,001,974	3,917,557	6,919,531	7,824,732	8,644,834	1,725,303
Excess (deficiency) of receipts over (under) disbursements	(656,101)	663,591	7,490	(82,206)	(651,137)	658,627
Other financing sources, net	391,004	(3,025)	387,979	200,000	200,000	(187,979)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(265,097)	660,566	395,469	117,794	(451,137)	470,648
Balances beginning of year	2,622,733	5,541,392	8,164,125	4,894,171	4,894,171	3,269,954
Balances end of year	\$ 2,357,636	6,201,958	8,559,594	5,011,965	4,443,034	3,740,602

See accompanying independent auditor's report.



**City of Montezuma, Iowa**  
**Notes to Other Information - Budgetary Reporting**  
**June 30, 2016**

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The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased disbursements by \$820,102. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the debt service function.

**City of Montezuma, Iowa**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Iowa Public Employee's Retirement System**  
**For the Last Two Years\* (In Thousands)**  
**Other Information**

	2016	2015
City's proportion of the net pension liability	0.005916%	0.006386%
City's proportion of the net pension pension liability	\$ 294	258
City's covered-employee payroll	\$ 418	441
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	70.33%	58.50%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

\*In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**City of Montezuma, Iowa**  
**Schedule of City Contributions**  
**Iowa Public Employees' Retirement System**  
**Last 10 Fiscal Years (In Thousands)**  
**Other Information**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 40	36	38	40	35	28	25	23	21	19
Contributions in relation to the statutorily required contribution	(40)	(36)	(38)	(40)	(35)	(28)	(25)	(23)	(21)	(19)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 455	\$ 418	441	466	448	410	378	369	357	341
Contributions as a percentage of covered-employee payroll	8.79%	8.61%	8.62%	8.58%	7.81%	6.83%	6.61%	6.23%	5.88%	5.57%

See accompanying independent auditor's report.

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## **Supplementary Information**

**City of Montezuma, Iowa**  
**Schedule of Indebtedness**  
**Year ended June 30, 2016**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Housing project & refunding	10/30/2012	1-2.25%	\$1,215,000	\$ 900,000	-	260,000	640,000	13,415	860
				<u>\$ 900,000</u>	<u>-</u>	<u>260,000</u>	<u>640,000</u>	<u>13,415</u>	<u>860</u>
Water Revenue Notes:									
SRF-Series 2011	4/1/2011	3.00%	\$1,963,734	\$ 1,743,000	-	78,000	1,665,000	56,647	4,163
				<u>\$ 1,743,000</u>	<u>-</u>	<u>78,000</u>	<u>1,665,000</u>	<u>56,647</u>	<u>4,163</u>
Sewer Revenue Notes:									
SRF-Series 2015 (preliminary)	9/4/2015	1.75%	\$385,845	\$ -	385,845	-	385,845	4,435	459
				<u>\$ -</u>	<u>385,845</u>	<u>-</u>	<u>385,845</u>	<u>4,435</u>	<u>459</u>

See accompanying independent auditor's report.

## Schedule 2

**City of Montezuma, Iowa**  
**Bond and Note Maturities**  
**Year ended June 30, 2016**

Year Ending June 30,	General Obligation bonds		SRF		SRF	
	Housing Project & Refunding		Water Revenue Bonds		Sewer Revenue Bonds	
	Issued 10-30-2012		Issued 4-1-2011		Issued 9-4-2015	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Preliminary Amounts
2017	1.15%	260,000	3.00%	81,000	2.00%	16,000
2018	1.50%	60,000	3.00%	84,000	2.00%	17,000
2019	1.50%	60,000	3.00%	86,000	2.00%	17,000
2020	2.00%	65,000	3.00%	89,000	2.00%	17,000
2021	2.00%	65,000	3.00%	92,000	2.00%	18,000
2022	2.25%	65,000	3.00%	95,000	2.00%	18,000
2023	2.25%	65,000	3.00%	98,000	2.00%	19,000
2024			3.00%	101,000	2.00%	19,000
2025			3.00%	105,000	2.00%	19,000
2026			3.00%	108,000	2.00%	20,000
2027			3.00%	111,000	2.00%	20,000
2028			3.00%	115,000	2.00%	20,000
2029			3.00%	119,000	2.00%	21,000
2030			3.00%	123,000	2.00%	21,000
2031			3.00%	127,000	2.00%	22,000
2032			3.00%	131,000	2.00%	22,000
2033					2.00%	23,000
2034					2.00%	23,000
2035					2.00%	24,000
2036					2.00%	9,845
		<u>\$ 640,000</u>		<u>1,665,000</u>		<u>385,845</u>

See accompanying independent auditor's report.

## Schedule 3

City of Montezuma, Iowa  
 Schedule of Changes in Fiduciary Assets and Liabilities  
 Agency Fund  
 June 30, 2016

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 13,320	-	10,761	2,559
<b>Liabilities</b>				
Accounts payable	\$ 13,320	-	10,761	2,559

See accompanying independent auditor's report.



**City of Montezuma, Iowa**  
**Schedule of Receipts by Source and Disbursements by Function**  
**All Governmental Funds**  
**For the Last Ten Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts:										
Property tax	\$ 701,298	637,941	607,700	572,150	577,547	543,152	556,514	538,865	508,001	480,742
Tax increment financing collections	-	-	-	-	-	6,779	47,711	48,184	47,695	45,124
Other taxes	138,860	162,974	140,143	132,326	150,447	130,827	130,600	128,568	166,417	-
Licenses & permits	2,985	2,384	2,013	1,994	4,325	2,913	2,485	2,725	2,830	-
Use of money and property	5,296	3,974	5,028	7,422	6,748	17,806	10,519	28,516	82,230	75,417
Intergovernmental	1,111,507	225,438	180,249	159,930	163,456	145,670	194,512	245,238	353,343	121,433
Charges for service	87,567	100,190	104,159	119,828	89,422	80,913	88,211	97,647	81,596	82,222
Miscellaneous	298,360	314,381	187,266	197,276	167,951	142,295	146,363	180,486	153,127	97,860
Total	<u>\$ 2,345,873</u>	<u>1,447,282</u>	<u>1,226,558</u>	<u>1,190,926</u>	<u>1,159,896</u>	<u>1,070,355</u>	<u>1,176,915</u>	<u>1,270,229</u>	<u>1,395,239</u>	<u>902,798</u>
Disbursements:										
Operating:										
Public safety	\$ 236,359	313,641	436,460	196,727	281,151	178,712	183,285	286,586	325,039	164,930
Public works	340,596	274,369	248,618	352,875	355,719	326,212	224,066	270,817	259,360	241,578
Health and social services	0	0	-	-	-	-	-	-	-	2,750
Culture and recreation	128,291	131,648	127,869	127,053	134,210	143,730	186,233	117,837	114,126	108,146
Community & economic development	-	72,924	53,821	-	-	-	-	-	151,878	-
General government	160,371	150,169	152,067	219,590	194,967	141,931	114,141	106,235	109,311	104,242
Debt service	277,850	270,965	857,907	233,229	204,876	251,373	282,731	285,994	334,911	165,895
Capital projects	1,858,507	126,592	268,145	545,352	-	-	-	358,000	1,405,527	-
Total	<u>\$ 3,001,974</u>	<u>1,340,308</u>	<u>2,144,887</u>	<u>1,674,826</u>	<u>1,170,923</u>	<u>1,041,958</u>	<u>990,456</u>	<u>1,425,469</u>	<u>2,700,152</u>	<u>787,541</u>

See accompanying independent auditor's report.

**Schedule 5**
**City of Montezuma, Iowa**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2016**

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	13-DTR-007	\$ 452,257
	14.228	14-WS-024	462,080
			<u>914,337</u>
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	C0679R	<u>385,845</u>
Total			<u><u>\$ 1,300,182</u></u>

**Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Montezuma under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The City of Montezuma it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Montezuma.

**Summary of Significant Accounting Policies** - Expenditures reported in the schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than the U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, with the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Montezuma has elected to use the 10% de minimis indirect cost rate as allowed under the uniform Guidance.

See accompanying independent auditor's report.



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**Van Maanen, Sietstra, Meyer & Nikkel, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed In Accordance with  
Government Auditing Standards**

To the Honorable Mayor and Members of the City Council  
City of Montezuma  
Montezuma, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 12, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Montezuma's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Montezuma's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Montezuma's Responses to Findings

The City of Montezuma's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Montezuma's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra, Meyer & Nikkel PC*

Van Maanen, Sietstra, Meyer & Nikkel, PC  
Certified Public Accountants

October 12, 2016



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**CERTIFIED PUBLIC ACCOUNTANTS**

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
on Internal Control over Compliance Required by the Uniform Guidance**

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Montezuma's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The City of Montezuma's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Montezuma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Montezuma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each of the major federal programs. However, our audit does not provide a legal determination of the City of Montezuma's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Montezuma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### Report on Internal Control Over Compliance

The management of the City of Montezuma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Montezuma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-16, we consider to be a material weakness.

The City of Montezuma's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Montezuma's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Van Maanen, Sietstra, Meyer & Nikkel PC*

Van Maanen, Sietstra, Meyer & Nikkel, PC  
Certified Public Accountants

October 12, 2016

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) Major programs was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Montezuma did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Management Response - We will consider this.

Conclusion - Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs for Federal Awards**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 14.228: Community Development Block Grants/State's Program  
and Non-Entitlement Grants in Hawaii  
Pass-through Agency Number: 16-CD-000  
Federal Award Year: 2016  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Economic Development Authority**

- III-A-16  
(2016-001) Segregation of Duties over Federal Receipts - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Management Response - We will consider this.

Conclusion - Response acknowledged.

**Part IV: Other Findings Related to Statutory Reporting:**

- (1) Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the budget in debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Management Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.



**City of Montezuma, Iowa**  
**Scheduling of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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(4) Business Transactions

Business transactions between the City and City officials, employees or associates for the year ended June 30, 2016 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Owner of Jim's Heating & Air Conditioning	A/C & Heating System Repairs	\$403
Doug Vermeer, Trustee of Montezuma Light & Power Owner of Vannoy Chevrolet	Vehicle repairs & maintenance	\$1,331
Mark Ewing, Employee Street Superintendent	Sidewalk repair	\$1,320
Charlie Sheets, Trustee of Montezuma Light & Power Owner of Sheets Excavating	Sewer Rehab & Culvert repairs	\$137,438

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with one of the Trustees may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year.

Recommendation – The City may want to seek legal advice regarding transactions with the trustees.

Management Response – We will consider this.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes - The city of Montezuma has established proper accounts as required by the City revenue note resolutions.